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C O N F I D E N T I A L SECTION 01 OF 04 ASUNCION 001047

SIPDIS

STATE FOR WHA/BSC, WHA/EPSC, EB/IFD/OIA  
STATE PASS TO USTR FOR LYANG  
USAID FOR AA/LAC ADOLFO FRANCO  
TREASURY FOR OSIA MAUREEN WAFER  
COMMERCE ITA SARA COOK  
NSC FOR MIKE DEMPSEY AND SUE CRONIN  
SOUTHCOM FOR POOLAD DAN JOHNSON

E.O. 12958: DECL: 08/19/2015

TAGS: [ECON](#) [EINV](#) [EFIN](#) [PREL](#) [PA](#)

SUBJECT: PARAGUAY: EXPROPRIATION CASE A SETBACK FOR  
BUSINESS CLIMATE

Classified By: Ambassador John F. Keane for reasons 1.4 (b) and (d).

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Summary  
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1. (U) In a blow to Paraguay,s business climate, the Senate passed a bill on August 4 calling for the expropriation of 52,000 hectares (130,000 acres) of land owned by Reverend Sun Myung Moon,s Korea-based Unification Church in Paraguay,s northern Chaco region. It now must get through the Chamber of Deputies and GOP President Duarte before becoming law. Victoria S.A., a firm contracted by the Unification Church, manages the land that, according to politicians, will be given to local farmers and used for sustainable agrarian projects. The Korean Government has expressed its concern over the bill and Victoria S.A. has said it will permanently leave Paraguay if its land is taken away. It has already temporarily ceased operations and has terminated hundreds of temporary workers. Local press reports speculate that the expropriated land will be given to over 850 people, some of whom are family members and friends of the involved politicians. The Senate,s action, and President Duarte,s public support for the expropriation, undermines efforts to improve Paraguay,s reputation as a risky destination for capital investment. That said, the expropriation appears to be progressing legally, and it will not be the first time land has been expropriated in Paraguay. End Summary.

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The Current Situation  
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2. (U) In early June, Congress introduced a bill calling for the expropriation of over 52,000 hectares (130,000 acres) from the company Victoria S.A., controlled by Reverend Sun Myung Moon,s Korea-based Unification Church. The Senate passed the bill on August 4, and it will next be considered by the Chamber of Deputies.

3. (U) President Nicanor Duarte Frutos originally said that he was not in favor of the bill because &it will send a negative message for foreign investment.8 Shortly before the bill was approved, though, the President adopted a different take on the issue, claiming local residents lived in a &semi-feudal8 arrangement and accusing Victoria, S.A. of not investing in the land. He stated publicly that the government supports &private property that is productive, is utilized and that generates wealth.8 He claimed that Paraguay,s constitution sets forth the goal of avoiding the accumulation of unproductive large estates and conveyed concern about such large tract of land being owned by foreign interests. President Duarte also implied in his remarks that Paraguay didn,t need foreign investment so much as the return of resources held abroad by Paraguayans. The President has said that he will not veto the bill if it is approved by both chambers of Congress.

4. (U) Victoria S.A. controls over 600,000 hectares (1.5 million acres) around Puerto Casado, a town in Paraguay,s rural Chaco region. Supporters of the bill claim that less than 1 percent of the property is being &properly8 used, and that some of the land would be given back to locals to own personal plots of farmland. The remaining land would then be converted into sustainable beekeeping, cattle ranching, and milk producing operations as per Victoria S.A.,s original plans.

5. (U) A similar bill proposing the expropriation of around 160,000 hectares (400,000 acres) was pulled from the legislative agenda in early June, supposedly after Victoria S.A. agreed to donate a portion of the land to the town. Ultimately, no donation was made and the new bill was proposed only a day after the first one was removed. Following the passage of the bill by the Senate, Chamber of Deputies President Victor Bogado suggested that perhaps a smagical thought8 would lead the firm to donate some land

before it is expropriated.

16. (U) In June, Carlos Fillizola, the current President of the Congress from the socialist Country in Solidarity Party (PPS), agreed to form a coalition with the governing Colorado Party in exchange for Colorado support for (inter alia) his party's initiative to expropriate Victoria S.A. property. Many commentators view the bill adopted by the Senate as evidence of the Colorado Party delivering on its promise in return for the PPS support for its candidate for Attorney General.

17. (U) When this bill originally went before Congress last June, the Korean ambassador expressed serious concern over the expropriation, claiming that it violates a bilateral investment agreement. President Duarte's official visit to Seoul in late June was canceled over the issue. However, coming out of a meeting on August 9 with the Vice-President and several Congressmen, the Korean Ambassador lowered his rhetoric considerably, claiming the matter was for the GOP and Victoria S.A. to resolve rather than the Korean Government in coordination with the GOP. The Taiwanese ambassador to Paraguay has warned the GOP publicly that the expropriation would be a negative sign for foreign investors.

18. (U) Some Puerto Casado residents have vowed to blockade the only road into town to press for the expropriation. A community radio station was also destroyed on the eve of the Senate debate of the bill, prompting President Duarte to send military troops to the area to control the situation.

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History  
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19. (U) In 2000, the Unification Church and Korean national Mr. Park Koo-Bai jointly purchased over 600,000 hectares (1.5 million acres) of land around Puerto Casado, in northern Paraguay, from its Argentine owner. The property remains jointly registered to the Unification Church and Mr. Park, but Victoria S.A. has a management contract to develop it. (Note: Earlier this year, the Unification Church gave Mr. Park power of attorney over the entire property. Mr. Park also owns a large company in Uruguay known as ATNIL S.A., according to the Korean Ambassador here. End Note.)

110. (U) There are lingering concerns over the Argentine owner's initial acquisitions of the territory in the late 19th century. The initial purchase allegedly violated the limits on the sale of property to foreigners at that time, and there are reportedly no records of Casado ever paying the GOP for the land. Thus, supporters of the current bill contend that the Unification Church and Mr. Park's subsequent purchase of the land from Casado was illegal because the original title to the land was fraudulently obtained. (Note: Attempts to seize land based on such doubts about purchases over a century ago would cause havoc if applied broadly. There are no attempts to rectify doubtful sales even during the more recent Stroessner era. Applying this &Casado Standard8 could undermine titles to literally over half the country. End Note.)

111. (U) The Unification Church and Mr. Park jointly own practically all of the land around the village of Puerto Casado, with the exception of the few hectares on which the town stands. The stated reason for the purchase was to create an &ecological paradise8 in the Chaco region. Victoria S.A. employed more than 600 people, around 10% of the total population of Puerto Casado. Before Victoria, the town's primary source of income was a tannin factory that shut down in the late 1990s, leaving most of the town's working population unemployed.

112. (U) A statement by Victoria S.A., published in the local press after the second expropriation bill was proposed, claims that it promotes jobs and sustainable development in Puerto Casado. It also accuses politicians of wanting to expropriate the land for personal gain. Victoria's owners allege to have attempted to contact Senator Carlos Filizzola, now the president of the Senate and co-author of the original expropriation bill, to discuss the situation, but without success.

113. (U) Supporters of the current bill have long accused the Unification Church, through Victoria S.A., of wanting to control the world's largest clean water aquifer, over which its property lies. This is a stock xenophobic charge also recently leveled by opponents of small US military exercises here. Local politicians have also openly accused them of drug and arms trafficking because of their close proximity to the Brazilian border. None of these accusations have been formally investigated or proven, and there is no evidence to support them.

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Land for Poor Farmers?

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14. (U) Several weeks after the proposal of the new bill, local news sources published a list of over 850 recipients of the proposed expropriated land. Some of the names are from Puerto Casado, but the list also included many who do not even live near the town. News reports showed these to include family members of politicians as well as wealthy businessmen.

15. (U) Local press recently accused the mayor of Puerto Casado of failing to report 75 percent of his town's tax revenue in 2003. Although not yet convicted of any crime, it is cause for concern that he is one of the major local political supporters of the expropriation bill. He also has 14 family members that would receive property in the case of expropriation, only one of whom currently resides in Puerto Casado.

16. (U) Hundreds of Puerto Casado residents recently traveled to Asuncion to pressure politicians into voting for the expropriation. They met with the President of Congress and the head of the Supreme Court, confirming their support for the cause. Post understands that the demonstrators were paid a small sum of money to make the trip to Asuncion, and that many of the protestors were actually from elsewhere, including Asuncion. The president of the Paraguayan Episcopal Conference and members of the Catholic Church have also expressed strong support for the expropriation. Church leaders argue that expropriation favors the poor and addresses alleged loss of sovereignty and inroads by a foreign religious sect.

17. (U) Not all Puerto Casado citizens are in favor of the expropriation. Some of them, mostly employees of Victoria S.A., also traveled to Asuncion, albeit to protest the bill. They argue that their jobs would be taken away if Victoria S.A. left Paraguay and that the expropriation would ultimately benefit the sponsoring politicians rather than local citizens. Victoria management has backed up those fears and temporarily shut down their factory for an unspecified period of time, also laying off hundreds of part time employees. Victoria has been the only consistent sources of work for people in Puerto Casado since the local tannin factory closed down.

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Comment  
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18. (C) President Duarte's public comments supporting expropriation of Victoria-controlled land send an unhelpful signal about the state of Paraguay's investment climate. Perhaps worse are comments by legislators about land donations that look a lot like extortion, and arguments that much of Paraguay's land could be up for grabs if enough politicians support it. What is bad for international investors is bad for wealthy Paraguayans with their money outside the country and for all supporters of reform.

19. (C) There have been hundreds of cases of land expropriation in Paraguay, a number of them involving thousands of acres. According to the Paraguay constitution, expropriation is legal and this matter appears to be proceeding in a manner consistent with Paraguayan law, notwithstanding little serious study of the matter on the part of the Congress. That lack of study, and the evidence that this expropriation is almost solely due to a political pact between the governing party and three minor parties to seize control of both houses of Congress, are the fuel behind the polarizing controversy. There has been talk that Victoria S.A. would be compensated, but so far no details have been provided. The Korean Ambassador has told us he is concerned that Paraguay will violate a bilateral treaty which calls for effective, prompt, fair value compensation in cash for any expropriation, because Paraguay's constitution carries loopholes for expropriation of so-called unproductive property.

20. (C) While there have been a number of large investments (particularly in the cellular telephone industry) announced in the last six months, one can only wonder how many investment opportunities are lost due to the government's cavalier approach to private property. Since reversing himself last year, President Duarte has strongly opposed land invasions and promoted investment. One hopes that this move, demoralizing as it is, will prove an exception tied to Paraguay's bizarre political culture and very immature democracy.

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